



UNITED NATIONS
ECONOMIC AND SOCIAL COUNCIL
ECONOMIC COMMISSION FOR AFRICA

Forty-seventh session of the Economic Commission for Africa



AFRICAN UNION

*Ninth session of the Conference of African
Ministers of Economy and Finance*

Seventh Joint Annual Meetings of the ECA Conference
of African Ministers of Finance, Planning and
Economic Development and AU Conference of
Ministers of Economy and Finance

Abuja, Nigeria
29 and 30 March 2014



Distr.: General

E/ECA/CM/47/5
AU/CAMEF/MIN/5(IX)
17 March 2014

Original: English

High-level Policy Dialogue on Industrialization for Inclusive Growth and Job Creation

Background paper

*Theme: Industrialization for inclusive and transformative development
in Africa*

I. Background

1. In spite of relatively strong gross domestic product growth in Africa over the last decade, high unemployment persists, resulting in limited progress in reducing poverty and tackling other social problems. High unemployment not only impedes human development but also has the potential to reduce capital formation, increase income inequality and cause major social instability. There is an urgent need to create jobs for the growing labour force, in particular for young people and other vulnerable groups. The positive news is that Africa's labour force is increasingly educated and healthy, and hence likely to be productive with the right government policies and interventions.

2. Industrialization and equitable distribution of the benefits of growth are essential for reducing unemployment and creating decent employment opportunities. For most people, gainful employment is the only way out of poverty, yet unemployment and underemployment rates in Africa remain high. A significant share of the labour force is engaged in vulnerable employment, which is often characterized by low productivity, mostly in the informal or traditional sectors of the economy. While there are a number of factors behind Africa's high unemployment rates, it is clear that African economies are not able to create enough jobs for the growing labour force because the sectors that anchor economic growth tend to be capital-intensive enclave sectors. In addition, the situation has been exacerbated by forces of supply and demand: Africa's labour force is expanding rapidly owing to high population growth and increased labour participation, while demand for labour is not growing fast enough.

3. Recalling the commitments made in September 2004 in Ouagadougou at the African Union's Extraordinary Summit on Employment and Poverty Alleviation in Africa, as well as the objectives of the New Partnership for Africa's Development, it is vital for African countries to target employment in the long-term development plans currently being formulated, implemented or monitored. Such a focus is essential if countries are to pursue a path of strong, sustainable and employment-friendly growth. These plans should be supported by sectoral strategies and policies – particularly industrial and labour market ones – intended to bridge the infrastructure gap, boost investment in human capital, and increase productivity and incomes in the informal sector¹.

4. While rapid economic growth may help to generate employment, the total number of jobs created will depend on the aggregate growth rate and the employment elasticity of growth, which is partly a function of the sectors that are the growth engines. It is unlikely that rapid growth based on mineral exports alone will create enough jobs to absorb the growing labour force because these sectors tend to be capital-intensive, have few linkages to the domestic economy, and employ a relatively small share of the labour force. In order to increase employment, structural changes are needed as well as efforts to increase the productivity and growth rate of the agriculture, manufacturing and modern service sectors².

5. In this regard, one of the key objectives of this paper is to promote more in-depth discussion of the relationship between industrialization, growth and job creation. As discussed above³, job creation, especially for vulnerable groups such as women and young people, who

¹ ECA and AUC (2010). *Economic Report on Africa 2010: Promoting high-level sustainable growth to reduce unemployment in Africa*. Addis Ababa: ECA.

² ECA and AUC (2013). *Making the most of Africa's commodities: industrializing for growth, jobs and economic transformation*. Addis Ababa: ECA.

³ ECA and AUC (2014). Issues paper: *Industrialization for an inclusive and transformative development agenda*.

are disproportionately impacted by limited decent employment opportunities, is vital for sustainable development and inclusive growth in Africa. Section II discusses the growth-employment-poverty nexus and the need for policy interventions that accelerate the shift of resources to more productive sectors of the economy as a means of job creation. Section III examines labour market policies that can boost overall employment, with a focus on vulnerable groups such as women and young people. Lastly, section IV sets out pertinent issues and questions for discussion as well as the expected outcomes of such discussions.

II. Growth-employment-poverty nexus

6. Africa has been growing at a fast and sustained rate over the last decade, driven by improved macroeconomic policies and commodity exports. The level and pace of Africa's economic performance, however, has not been sufficient to positively impact job creation. The informal economy continues to be the main source of employment in Africa, providing low-paid, vulnerable jobs that are likely to undermine future prospects, particularly for young people. Persistently high levels of unemployment, along with an increasing share of young people not in employment, education or training (NEETs), represent a serious threat to human capital development, poverty eradication and social stability in many countries. High inequalities also persist in the majority of African countries. Men and adults are twice as likely to enter the workforce as women and young people, while rural populations have less access to skills' development and employment opportunities compared to those in urban areas.

7. While part of the reason for low job creation in Africa may be the rapidly growing labour force, a large part is in fact attributable to the inability of African economies to generate productive jobs. This results in considerable capacity underutilization and increasing numbers of low-paid informal jobs, a situation that severely hampers economic growth in the long run. Empirical evidence shows that while economic growth may help to generate employment, the creation of jobs also depends to a large extent on the **employment elasticity of growth** in the various sectors, that is the sectoral composition of growth. Indeed, some studies have demonstrated that, in the short term, for employment growth to be faster than output growth, the employment elasticity of growth has to be greater than unity⁴. The reality, however, is that the main sources of growth in recent years have been sectors with low-employment elasticities, such as the mining sector (which employs less than 10 per cent of the labour force). Meanwhile, agriculture, manufacturing and services, which together employ over 80 per cent of the labour force, still represent a small share of economic growth in most African countries⁵.

8. Consequently, to accelerate employment growth in an economy, large sectors with high employment elasticities need to be the main engines of growth. In this context, structural transformation becomes imperative to enable the transition from capital-intensive to labour-intensive sectors and from low-skilled to high-skilled sectors. In countries such as South Africa, this shift has already led to a stronger demand for skilled labour and reduced demand for unskilled labour⁶. Central to this process is the diversification of economies away from

⁴ Mahmood, M. (2008). *Economic growth, employment and poverty in the Middle East and North Africa*. Working Papers – General Series 46. Institute of Social Studies.

⁵ ECA (2010). *Economic Report on Africa 2010: Promoting high-level sustainable growth to reduce unemployment in Africa*. Addis Ababa: ECA in collaboration with AUC.

⁶ Rodrik, D. (2006). *Understanding South Africa's Economic Puzzles*. Working Paper No. 130, Center for International Development, Harvard University.

agriculture and informal sectors with low productivity, low incomes and poor working conditions. In certain countries, including Algeria, South Africa and Tunisia, fairly low and declining agricultural employment, coupled with the rising share of industrial employment, has provided avenues for economic diversification, productivity and job creation.

9. The symbiotic relationship between employment and economic growth therefore suggests that job creation in Africa can only be increased by shifting the sources of growth from capital-intensive, low-employment generating sectors to labour-intensive, high productivity sectors. This will need to be accompanied by targeted employment policies, including incentives for private sector development and skills upgrading, particularly for rural and informal sector workers.

10. The skills gap remains a major hurdle – especially for younger generations of Africans – to entering and competing in the labour market. Indeed, the mismatch between the skills employers need and the skills workers have to offer has been identified as a major constraint to development in the majority of African countries. Both the poor quality of education and the absence of linkages between education systems and employers have been cited as possible causes of the skills gap. At the same time, changing economic structures in Africa are putting increasing pressure on education systems to go beyond primary education. In the absence of a large manufacturing sector – which traditionally utilizes low-skilled workers – in most African countries, secondary education is often a minimum requirement to enter paid employment in the formal sector.

11. Skills development programmes – including technical and vocational training tailored to the labour market’s needs – therefore have the potential to provide young people with applied skills and a better chance of competing in the labour market and finding a decent job. Recent research shows that programmes that combine in-class and on-the-job training provide both soft (behavioural) skills and hard (technical) skills, which can have a significant positive impact on the employment opportunities and earnings of participants⁷. A study in urban West Africa also shows that vocational training has a higher marginal return than general secondary education^{8 9}. Returns from vocational training are highest in the informal sector, emphasizing the importance of developing skills programmes for informal sector workers.

12. However, in Africa technical and vocational training still accounts for less than 5 per cent of training among young people; even where such programmes do exist, they suffer from a shortage of qualified staff, obsolete equipment, ill-adapted programmes and weak links with the job market¹⁰. There is, therefore, a need to upgrade and improve the effectiveness of training programmes and align the educational curricula to the labour market’s needs. Indeed, it is estimated that by investing in youth capabilities, including through education, training and skills development, Africa could create up to 72 million jobs by 2020, that is 18 million more than under current growth levels¹¹.

⁷ Fares, J. and O.S. Puerto (2009). *Towards Comprehensive Training*. Social Protection Discussion Paper No. 0924. Washington D.C.: World Bank.

⁸ African Development Bank in collaboration with OECD, UNDP and ECA (2012). *African Economic Outlook 2012: Promoting Youth Employment*. Paris: OECD.

⁹ Kuépié M., C.J. Nordman and F. Roubaud (2009). Education and Earnings in Urban West Africa. *Journal of Comparative Economics*, Vol. 37, No. 3.

¹⁰ African Development Bank in collaboration with OECD, UNDP and ECA (2008). *African Economic Outlook 2008: Developing Technical and Vocational Skills in Africa*. Paris: OECD.

¹¹ UNDP (2013). *Human Development Report 2013*. New York: UNDP.

13. However, structural change and reallocation of jobs across sectors also entail social adjustment costs that will need to be addressed. Lay-offs in low productivity sectors, increased training needs for workers and congestion in urban areas are just a few examples of problems that can arise from structural shifts in employment. The concentration of industries around big cities in Africa is also challenged by the lack of adequate infrastructure and basic social services for workers who migrate to cities in search of jobs, pushing workers further into vulnerable informal employment.

14. Consequently, deliberate action is required to strengthen the link between economic growth, employment and poverty reduction. Africa needs policies that increase the employment intensity of growth, coordinate supply and demand for labour, and ensure that poor people have access to basic social services and human capital development. This will help to create productive and income-generating employment, which is the key condition and most successful strategy for escaping poverty.

III. Prevailing labour market conditions are not conducive to job creation

15. The current status of the labour market in Africa represents a crucial challenge for the promotion and implementation of Africa's transformative agenda. This challenge is further complicated by a delicate issue for policymakers, namely the lack of data on labour markets, which are notoriously difficult to obtain in Africa. Unemployment registers exist in some countries, but are often confined to urban areas and are not comprehensive.

16. Despite the above, it is widely acknowledged that high youth unemployment in most African countries is closely linked to the inability of education systems to produce graduates with the skills that the labour market wants. Other factors include a small private sector, a saturated public service, high drop-out rates and, in some cases, conflict. The fact that there are at the same time both vast numbers of unoccupied posts and massive unemployment indicates a critical skills mismatch throughout the continent. Although there are many unemployed young people and a ever-growing labour force, many businesses in Africa struggle to fill vacant positions¹². Lack of proper training is among the most cited reasons by young people from North Africa for why they cannot find a job¹³.

17. Furthermore, labour regulations are strict and inflexible in many African countries, which tends to have a negative impact on young jobseekers and other marginalized groups. Very high job protection and dismissal costs currently act as a powerful disincentive for employers, making them naturally reluctant to employ young people in permanent positions. Internships and short-term contracts are generally designed not to help graduates acquire valuable skills needed in the labour market but to allow companies to verify employees' skills and competencies during a fixed period prior to potentially making a long-term appointment.

18. However, it is generally recognized that the development of relevant skills is an important instrument for improving productivity and working conditions, as is the promotion of decent work in the informal sector, which in Africa employs more people than any other

¹² ILO (2012). *Global Employment Trends 2012: Preventing a deeper jobs crisis*. Geneva: ILO.

¹³ OECD, AfDB, UNDP and ECA (2013). *African Economic Outlook 2013: Structural Transformation and Natural Resources*. Paris: OECD.

sector¹⁴. Skills mismatches in Africa stem from the **poor quality of education and the absence of linkages between education systems and employers**. Ensuring that curricula and education provide young people and women with skills that are relevant for the economy is therefore a key challenge. For instance, the development of manufacturing is currently hampered by the lack of workers with adequate technical skills. Positions in this sector are not targeted at people with tertiary education as they require technical skills such as maintaining equipment and supervising unskilled workers. At the same time, higher education systems in Africa need to become more diversified to meet the need for a variety of levels of skills and education.

19. African universities have traditionally focused on educating students to work in the public sector, with limited attention paid to the needs of the private sector. Universities should be able to educate their students with an eye to African markets, by improving education in technical fields and agriculture, and improving the quality of teaching. This approach also encompasses the need for additional and better guidance for students, to steer them away from enrolment in traditional public sector entrance subjects (arts, humanities and social sciences) towards employment in the private sector. **In order to facilitate progress on this issue, African countries should strengthen partnerships with the private sector at all levels of education.** Greater involvement of employers in the provision of in-service training has significant potential to increase the relevance and cost-effectiveness of training systems.

20. Technical and vocational skills development also has the potential to provide young people with additional applied skills and better chances in the labour market. Such skills can be obtained through specialized institutions or through on-the-job practical experience, or both – so-called “dual” training. Dual training programmes, such as internships or apprenticeships, can allow young people to apply theories learned in the classroom to real environments, to develop professional skills (such as time management and professionalism), and to gain practical experience.

21. **Given the importance of the informal sector, technical and vocational skills development systems must adapt to the needs of this sector in terms of skills and course structure, especially in rural areas.** In view of the considerable weight of the informal sector in African labour markets, vocational training should be much more focused on providing informal sector workers with the qualifications and skills they need. Increasing access to technical and vocational skills development in rural areas could have a significant impact on the lives of poor people by enhancing agricultural skills and productivity.

22. In the light of the above, and taking into account the need to overcome the spatial inequalities that affect the current system, innovative policies are required in order to narrow the skills gap and mismatch at all levels of education. Initiatives and policies aimed at shifting the balance in all public universities away from the humanities and towards science, technology and innovation-based subjects could provide the labour market with a new and more dynamic set of skills that could contribute effectively to economic transformation.

23. Furthermore, innovative labour market policies should include a specific focus on the most vulnerable groups and promote opportunities for women and young people. Regulations should be put in place to ensure that work is decent and that turnover is adequately facilitated

¹⁴ OECD, AfDB, UNDP and ECA (2013). *African Economic Outlook 2007: Water and Sanitation – How can Africa fill the gap?* Paris: OECD.

and encouraged, to avoid creating dual labour markets with a well-protected segment of older incumbents and a less protected segment made up of women and young people with unstable, poorly paid jobs.

24. At the same time, more flexible and dynamic labour regulations should be introduced with a view to providing young Africans with a medium to long term plan for their full participation in the implementation of national transformative agendas. Well-designed policies and incentives for internship programmes and shorter term contracts for young people could help them to gain their first work experience, boost their skills and competencies, and prove their employability.

25. The access of young people and women to the labour market could be further facilitated through the adoption of new policies aimed at shifting the cost burden of social protection away from employment; this would relieve employers of the high social protection costs they currently face in many African countries and reduce the incentive to invest in informal sector activities that do not contribute to social protection systems.

IV. Issues for discussion

26. The discussions will focus on the following key areas:

(a) How to devise meaningful and coherent employment strategies to increase the employment elasticity of growth by identifying sectors with large multiplier effects on decent jobs through the growth-employment-poverty nexus;

(b) How African Governments can address human capital development by improving training programmes and aligning the education system to the needs of the labour market;

(c) How African Governments can tackle the constraints and social costs arising from the reallocation of jobs to ensure that structural transformation is sustainable and inclusive of all segments of the population;

(d) What measures can be adopted to strengthen Africa's capacities in collecting data on labour markets;

(e) What innovative strategies should be considered to address the skills mismatch currently affecting African labour markets;

(f) How to review national efforts aimed at improving the quality of education and promoting innovative curricula and the skills required by the labour market and Africa's transformation needs;

(g) How to increase synergies and cooperation between African universities and the private sector in order to promote curricula and skills that can effectively contribute to economic transformation;

(h) The strategies for enabling women and young people – both in urban and rural areas – to access training and education programmes and technical and vocational skills development schemes with a view to providing them with the required skills for employment in the agricultural and manufacturing sectors;

(i) How to strengthen public-private partnerships in the field of technical and vocational skills development and the designing of science, technology and innovation-oriented curricula;

(j) How to identify innovative policies that will facilitate the access of women and young people to the labour market.

A. Key questions

(a) While there is no “one-size-fits-all” model, what policy mix should African countries adopt to reorient development strategies and strengthen the link between economic growth, employment and poverty reduction in Africa?

(b) How can African countries increase the employment intensity of growth, and at the same time ensure that the poorest and most vulnerable are integrated into the development process?

(c) What sectoral and macroeconomic strategies should be devised to effectively address employment and labour market failures, including institutional and capacity constraints?

B. Specific areas of discussion

(a) **Employment is the key channel through which growth can result in significant poverty reduction.** Consequently, meaningful employment strategies are needed to increase the employment elasticity of growth and ensure effective and sustainable job creation. One way to achieve this is to pursue policies that invest in employment-generating activities, including large-scale agriculture, manufacturing and services, through appropriate incentives, particularly for the private sector. Another strategy is to effectively involve and increase the productivity of the informal sector to make it an engine of growth. This may include increased training for skills upgrading, provision of support services, access to credit, and linking the informal sector to formal-sector markets and institutions.

(b) **Mainstreaming employment in long-term growth and development planning is critical** to avoid jobless growth and ensure poverty alleviation, particularly among vulnerable groups such as women and young people. Employment should be a key priority in national development planning and industrialization policies. Integration in macroeconomic and sectoral policies should also be a pre-requisite for sustainable and employment-generating growth.

(c) **Technical skills upgrading is key to increased productivity and employment creation in Africa,** because even if jobs are created, it is unlikely that the poorest possess sufficient skills to take advantage of such new employment opportunities. Moreover, there is a need to address skills gaps and adjust educational and vocational programmes to the labour market’s requirements. Productivity councils in the Republic of Korea and Taiwan Province of China provide good examples of institutional arrangements and programmes that link the industrial sector to curriculum development.

C. Expected outcomes

(a) Enhanced understanding of the nexus between industrialization, inclusive growth and job creation in Africa, with a focus on job creation for vulnerable groups such as women, young people and people who live in rural areas.

(b) Enhanced understanding of the dynamics of labour markets in African countries and the policies needed to boost human capital development, improve the quality of education and foster job creation by implementing sound and effective government policies tailored to suit different national situations.